LOSSES

This Help Sheet tells you what you can do if:

- **you have made a loss in your business, or**
- **you are entitled to a share of the loss made by a partnership of which you are a member.**

— Sole traders

You can claim tax relief for a loss you made in your business by filling in boxes 3.85 to 3.89 in your Self-employment Pages. You do not have to make your claims immediately; if you prefer, you may wait and claim relief later. But remember to make your claims within the time limits shown below. Late claims cannot normally be accepted.

The different ways you can claim tax relief for a business loss are:

- as a deduction from your income for this year (boxes 3.85 or 3.89 in the Self-employment Pages)
- as a deduction from your capital gains for this year (box 8.5 in the Capital Gains Pages)
- as a deduction from your income or capital gains for earlier years (box 3.86 in the Self-employment Pages)
- by reducing your business profits taxed in earlier years (box 3.86 in the Self-employment Pages) following cessation
- by carry forward against future profits from your business (box 3.87 in the Self-employment Pages and box 15.8 on page 5 of the Tax Return where you transfer your business to a company in exchange for shares in that company).

You cannot claim only part of the loss. And you can only claim relief once for each pound of loss. But if you make a claim and your income, gains or profits are not enough to use the whole of the loss, the balance of the loss can be claimed in another way.

You can claim loss relief as soon as you know how big the loss is, normally when the accounts have been prepared. But we cannot give the relief you claim until you have sent your completed Tax Return for the year you are claiming the relief to be given.

If you want to claim loss relief as a deduction from your income or gains for this year you must make your claim in your 2000-2001 Tax Return. If your business makes a loss in future, you can claim tax relief as a deduction against your income of the same year as the loss arose as soon as you know how big the loss is. We cannot, normally, give the relief until you have sent your Tax Return for that year. But if, exceptionally, you have income from employment then you can claim for your loss relief to be included in your tax code for the year of the loss.

If your claim is for loss relief as a deduction from your income or capital gains for earlier years, you can claim as soon as you know how big the loss is. This may mean that you claim relief even before you have been sent a Tax Return. If you want to claim relief before you have been sent a Tax Return, write a letter telling us the name of your business, how much the loss is and for what period and say how you want relief to be given.

— Partners

If you are a member of a partnership you can claim tax relief for your share of the partnership losses by filling in boxes 4.15 to 4.19 in your Partnership Pages.

Your share of the loss will be treated as having arisen from a business that you carried on alone. That business will be regarded as having **started** on the date you became a partner (unless you previously carried on the business on your own account when it will be regarded as having commenced on the date you started the business) and to have **ceased** on the date on which you ceased to be a partner (or if you carry on the business thereafter as a sole trader the date on which the business ceased).

The boxes referred to on this Help Sheet are generally those on the Self-employment Pages. The equivalent boxes on the Partnership Pages in your Tax Return are as follows:

Box 3.85 is equivalent to box 4.15

Box 3.86 is equivalent to box 4.16

Box 3.87 is equivalent to box 4.17

Box 3.88 is equivalent to box 4.18

Box 3.89 is equivalent to box 4.19.

The following paragraphs describe the different options and the conditions that must be satisfied.

Deduction from income or gains for 2000-2001

You can claim relief for the loss as a deduction from your income for 2000-2001. If the allowable loss is more than your income, you can claim the balance of the loss as a deduction from your capital gains for 2000-2001.

The loss you claim in box 3.85 will normally be the whole of the loss. But your total income less deductions cannot be reduced below zero. So, the figure you put in box 3.85 should be no higher than your total income less deductions.

If you wish to claim the balance of the loss against your capital gains for 2000-2001, enter the balance of your loss in box 8.5 on the Capital Gains Pages or, if this is more than your total gains for 2000-2001, enough of the loss to reduce the gains to zero. If there is a balance of loss after setting it against your income (and capital gains if you choose) then it can be claimed in another way.

The time limit for this claim is **31 January 2003.**

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Deduction from income or gains for earlier years

You can claim relief for the loss as a deduction from your income for an earlier year. There are two ways of doing this.

- If your business was set up and commenced trading on or after 6 April 1996, you can claim relief for the loss as a deduction from your income (but not capital gains) of the three years 1996-1997 to 1998-1999. The loss is first deducted from your 1996-1997 income. If there is any balance of loss left, this is deducted from your 1997-1998 income. Finally, any remainder is deducted from your 1998-1999 income.
- You can claim relief for the deduction from your income for 1999-2000. If the allowable loss is more than your 1999-2000 income, you can, if you wish, claim the balance of the loss as a deduction from your capital gains for 1999-2000. This option is available to any business.

The time limit for claims is **31 January 2003.**

If you want to claim relief in your Tax Return, enter the total to be carried back in box 3.86, and provide details of the amount carried back to each year in the 'Additional information' box on Page SE4. You can use the Working Sheet to keep track of your losses. The first entry will normally be the whole of your allowable loss for 2000-2001 (box 3.84). But if your total income for this year is less than the loss, it will be the amount of your income. You may then complete the second line in the same way, and so on.

If you claimed loss relief under this heading before your Tax Return was sent to you, you must remember to include the amount of relief claimed in box 3.86 of the Self-employment Pages.

Deduction from income and gains: restrictions

You should only claim relief for your loss as a deduction against your income or capital gains of 2000-2001 or an earlier year if you ran your business commercially for profit. If not, for example, because your business is run as a hobby, you can only claim to set the losses against profits made in your business. And if you are a farmer or market gardener, you cannot normally claim your losses in this way if you also made losses (computed for this purpose only before capital allowances are taken into account) in each of the previous five tax years. If your business is carried on wholly overseas, you can only claim your losses as a deduction from your income or capital gains which come from abroad. Your tax adviser or Inland Revenue office will tell you what to do.

Carry forward against future profits

You can carry your loss forward to set against future profits from the same business. It will then be deducted from your profits in the first and each subsequent profitable year until it is used up. The time limit for a claim is **31 January 2007.**

Enter in box 3.87 the amount of your 2000-2001 loss which you wish to claim in this way. Enter in box 3.88 the amount of any losses you sustained in 1999-2000 and earlier years which you have not yet used, and include in box 3.89 losses used against 2000-2001 profits.

REDUCTION OF BUSINESS PROFITS TAXED IN EARLIER YEARS

If your business ceased in 2000-2001, you can set the loss of your final 12 months of trading against any profits from the same business which were taxed in 1997-98, 1998-99, 1999-2000 or 2000-2001. *Help Sheet IR222: How to calculate your taxable profits* explains this.

SUMMARY OF HOW ALLOWABLE LOSS IS TO BE RELIEVED

You may find it useful to summarise your loss relief claims in the Working Sheet below. This will enable you to keep track of your losses and make sure you do not forget to claim relief for any of them. Remember that there is a limit how far back you can carry a loss to set against earlier years' income and this depends upon the type of claim you make.

Working Sheet

Allowable loss for 2000-2001 (from box 3.84)	**A**	£
Loss relief claimed against other taxable income or capital gains for:		
2000-2001	**B**	£
1999-2000	**C**	£
1998-99	**D**	£
1997-98	**E**	£
Total losses claimed in this way	**F** (total of boxes B to E)	£
Balance of allowable loss for 2000-2001	**G** (box A *minus* box F)	£
Loss brought forward from last year	**H**	£
Loss allowed this year (box 3.89)	**I**	£
Not yet allowed	**J** (box H *minus* box I)	£
Loss carried forward to next year	**K** (box G + box J)	£

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.